



**Director of
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USSR-US: Grain Negotiations

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Comment: The Soviets almost certainly believe that the current world glut in grain strengthens their negotiating position. World production set a record in the 1981-82 crop year, while demand was stagnant except for the USSR. Grain stocks may rise again this year, to new record levels. [redacted]

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Recent Soviet efforts to arrange grain purchases for next year from sources other than the US further strengthen Moscow's hand. The USSR signed a three-year agreement with Thailand in April for a total of 2.7 million tons of corn, rice, and tapioca, and earlier this month meetings were held with Canada on increasing grain supplies. [redacted]

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The Soviets, however, probably believe that they cannot consistently secure the grain they need without US help. They also are likely to anticipate that the international grain market will change, leaving them in a less advantageous bargaining position. [redacted]

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SPECIAL ANALYSIS

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SOUTH KOREA: Problems Mount for Chun

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The financial scandal that broke in Seoul last week is the latest and most damaging in a series of setbacks for President Chun. He has already attempted to ease public doubts about the government's role in the scandal by shaking up the leadership. The opposition may take to the streets if Chun is unable to reverse mounting public skepticism of his ability to govern effectively.

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The scandal revolves around a former high-ranking security official and his wife--who is related by marriage to an uncle of Mrs. Chun--to acquire unsecured bank loans, which they then loaned to cash-short companies at exorbitant interest rates. Investigation of the couple's dealings has revealed widespread bribery and other illegal activities by major bank presidents and business leaders.

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170 Chun's initial attempts to put a lid on the story failed. The opposition parties are now urging a legislative probe, and the media are demanding a full public examination of the scandal.

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The President subsequently pledged to pursue anyone involved in the affair, and the government is to release its preliminary investigation today. He has already sacrificed a number of high-level "New Era" figures implicated in the scandal, including leaders of the ruling party and his wife's uncle. At a minimum, he probably will use the cabinet's offer to resign to make changes in the economic portfolios and to underline his commitment to root out the scandal.

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Other Political Liabilities

Chun's recent problems began with the government's overreaction to the firebombing in mid-March of a US facility in Pusan. The regime's determination to portray the incident as a violation of national security, its

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indictment of a Catholic priest under the national security law for harboring several of the suspects before persuading them to surrender, and its general criticism of Christian activity have emboldened even politically moderate Christians to criticize the government. [redacted]

The rampage last month by a deranged provincial policeman further eroded public confidence in a police force widely regarded as corrupt and inefficient. To repair the damage from this incident, Chun fired his Home Affairs Minister and turned to an associate who helped him achieve power, retired General Ro Tae Woo. Although Ro is an excellent choice, he faces an uphill battle in his efforts to restore public confidence. [redacted]

Allegations earlier this spring that government officials received kickbacks in rice deals and a major subway construction accident in Seoul in early April have added to perceptions of official venality and ineptitude. [redacted]

There are no signs so far that the military is wavering in its overall support for Chun, although Chun's military supporters reportedly are "irritated" over the scandal. [redacted]

The Economic Record

The economy's sluggish performance also is working against the government. Growth has slowed since late last year because of the slump in international demand and the government's anti-inflationary policies. Moreover, Seoul's need to keep scaling back growth projections has repeatedly damaged the government's credibility. [redacted]

The financial scandal, which has paralyzed the unofficial money market, complicates the economic outlook. Unless Seoul is able to channel additional funds to financially strapped businesses, many firms will go bankrupt. [redacted]

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Prospects

The scandal comes at a bad time for the regime, because spring is a traditional season for protest in South Korea. Student, Christian, and labor activists have sensed Chun's vulnerabilities, and there are indications that they will use recent events to mobilize support against him. [REDACTED]

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If there is a wave of civil unrest, military leaders will assess the extent to which it is motivated by Chun's personal liabilities stemming from the involvements of his in-laws and members of his ruling party in the scandal. Should Chun ride out this recent series of setbacks, his government at a minimum will remain increasingly vulnerable to adverse political and economic developments. [REDACTED]

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